

BANK INDONESIA

**BANK INDONESIA REGULATION
NUMBER 2 /6/PBI/2000**

CONCERNING

**REQUIREMENTS AND PROCEDURES FOR BANK
EXAMINATION**

THE GOVERNOR OF BANK INDONESIA,

Considering:

- a. whereas banks, because of their standing as business entities that mobilize and channel funds from the public, must be capable of protecting the interests of members of the public who use banking services and uphold sound banking principles and a healthy banking system;
- b. whereas to ascertain and establish that a bank has protected the public interest and upheld sound banking principles and a healthy banking system, it is necessary to obtain a picture of the policies and business activities of a bank, both of strategic importance and that involve risk;
- c. whereas to obtain a clear, complete, and accurate picture, it is necessary to conduct examination of the policies and business activities of a bank, both of strategic importance and that involve risk;

- d. now therefore it is deemed necessary to enact provisions concerning the requirements and procedures for bank examination in a Bank Indonesia Regulation;

In view of:

1. Act Number 7 of 1992 concerning Banking (State Gazette Number 31 of 1992, Supplement to the State Gazette Number 3472) as amended by Act Number 10 of 1998 (State Gazette Number 182 of 1998, Supplement to the State Gazette Number 3790);
2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette Number 66 of 1999, Supplement to the State Gazette Number 3843);

HAS DECREED:

To enact:

**THE BANK INDONESIA REGULATION
CONCERNING REQUIREMENTS AND
PROCEDURES FOR BANK
EXAMINATION.**

CHAPTER I

GENERAL PROVISIONS

Article 1

The terminology used in this Bank Indonesia Regulation has the following meanings:

1. Bank is a Commercial Bank and Rural Bank as defined in Act Number 7 of 1992 concerning Banking, as amended by Act. Number 10 of 1998, and includes a branch office of a foreign bank;

6. Other Parties are other parties whom Bank Indonesia deems competent to conduct examination, for example, public accountants, as defined in the elucidation to Article 30 paragraph (1) of Act Number 23 of 1999 concerning Bank Indonesia.

CHAPTER II

EXAMINED PARTIES

Article 2

Bank Indonesia may conduct examination of:

- a. Banks; and/or
- b. Representative Offices of Foreign Banks.

Article 3

- (1) In conducting examination of a Bank as referred to in Article 2 letter a, Bank Indonesia may conduct examination of:

- a. a holding company of a Bank;
- b. subsidiaries of a Bank;
- c. Connected Parties of a Bank;
- d. Affiliated Parties of a Bank;
- e. debtors of a Bank.

- (2) Examination of parties as referred to in paragraph (1) shall be conducted in the event of indications that these parties, among others:

- a. have obtained provision of funds from a Bank;
- b. have a role in the operational activities of a Bank;
- c. have conducted actions harmful to a Bank;
- d. have obtained unduly high profits from a Bank;

2. Branch Office of a Foreign Bank is an office of a foreign bank which is directly or indirectly responsible to the head office of the bank concerned and has an address and domicile in Indonesia;
3. Representative Office of a Foreign Bank is an office of a foreign bank which acts only as a liaison between the foreign bank and its customers;
4. Connected Parties are parties linked to the Bank by virtue of being:
 - 1) an individual shareholder owning 10% (ten percent) or more of the paid up capital of the Bank;
 - 2) a corporate/institutional shareholder owning 10% (ten percent) or more of the paid up capital of the Bank;
 - 3) a member of the board of commissioners of the Bank;
 - 4) a member of the board of directors of the Bank;
 - 5) a relative of the parties referred to in number 1), number 3), and number 4);
 - 6) an individual owning 25% (twenty five percent) or more of shares and/or decision making whether directly or indirectly of companies as referred to in number 2);
 - 7) a Bank officer employed in an executive position, exerting influence over the operations of the Bank and/or directly responsible to Directors, including an officer in the Internal Audit Unit;
 - 8) companies in which the Parties as referred to in number 1) to number 7) above have an interest equal to or greater than 10% of the paid up capital of the company;
 - 9) companies in which the parties as referred to in number 1) to number 7) above exert influence on the operations, supervision, or decision making, even though these parties own no shares in the company;
 - 10) a subsidiary of a Bank in which the Bank owns more than 25% (twenty five percent) of the paid up capital and/or if the Bank exerts influence over this company.
5. Affiliated Party is an affiliated party as defined in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998;

Foreign Bank with Bank Indonesia regulations and other prevailing laws and regulations.

Article 6

- (1) Banks, Representative Offices of Foreign Banks, and the parties as referred to in Article 3 paragraph (1) shall immediately produce for and/or hand over to an examiner:
 - a. books, files, payment notes, records, memoranda, documents, and electronic data, including copies thereof;
 - b. any information and explanations pertaining to business activities, whether verbal or in writing;
 - c. opportunity to probe the existence and use of physical facilities pertaining to business activities;
 - d. other matters that may be required during the course of examination.
- (2) Representative Offices of Foreign Banks and the parties as referred to in Article 3 paragraph (1) shall extend assistance in establishing the truth of all information, documents, and explanations obtained by examiners.
- (3) Banks, Representative Offices of Foreign Banks, the parties as referred to in Article 3 paragraph (1), and/or other parties are prohibited from obstructing the process of examination and influencing the opinions or assessment of the examination team concerning aspects pertaining to the business operations of the Bank or the activities of a Representative Office of a Foreign Bank.

- e. have been experiencing financial difficulties that may affect the performance of the Bank.

Article 4

- (1) Examination of a Bank as referred to in Article 2 letter a comprises regular examination and examination at any time as may be required.
- (2) Examination as referred to in paragraph (1) encompasses examination of aspects pertaining to the business operations of a Bank, including supporting facilities and other matters pertaining to the financial affairs of a Bank.

Article 5

- (1) Examination of a Bank as referred to in Article 2 letter a may be conducted in order to:
 - a. obtain a comprehensive picture of the business development and financial condition of the Bank, including the detection of matters likely to affect the rating and viability of the Bank;
 - b. obtain assurance of the integrity of reports delivered by the Bank to Bank Indonesia, reports published for the public, and other information;
 - c. ascertain the compliance of the Bank in respect of Bank Indonesia regulations, other prevailing laws and regulations, and the guidelines, provisions, and working procedures established by the Bank;
 - d. probe suspicions of transactions that constitute banking crimes.
- (2) Examination of a Representative Office of a Foreign Bank as referred to in Article 2 letter b shall be for the purpose of ascertaining the compliance of the Representative Office of the

- (3) Any person bearing legal responsibility for Other Parties as referred to in paragraph (1) shall satisfy the requirements referred to in paragraph (2).

Article 9

- (1) Other Parties that are public accountants shall in addition to complying with the requirements referred to in Article 8 paragraph (2):
 - a. possess knowledge concerning the banking industry;
 - b. possess competence in conducting examination; and
 - c. be registered with Bank Indonesia.
- (2) Any persons bearing legal responsibility for public accountants shall satisfy the requirements referred to in paragraph (1) and Article 8 paragraph (2).

Article 10

- (1) To assign Other Parties to conduct examination, Bank Indonesia shall issue a work order.
- (2) Examination by Other Parties as referred to in paragraph (1) shall be conducted in compliance with the work order and the Terms of Reference comprising an integral part of the work order.

Article 11

- (1) An Examination Team shall present an Instruction to Conduct Examination issued by Bank Indonesia.
- (2) A Representative Office of a Foreign Bank or parties as referred to in Article 3 paragraph (1) shall refuse an examination team

CHAPTER III
REQUIREMENTS FOR PARTIES CONDUCTING
EXAMINATION

Article 7

- (1) Examination shall be conducted by a Team of Examiners consisting of not less than 2 (two) persons.
- (2) A Team of Examiners as referred to in paragraph (1) may consist of:
 - a. employees of Bank Indonesia appointed to conduct examination; or
 - b. Other Parties designated by Bank Indonesia; or
 - c. a combination of employees of Bank Indonesia and Other Parties.

Article 8

- (1) To be able to conduct examination, Other Parties shall be incorporated as legal entities.
- (2) Other Parties assigned to conduct examination as referred to in paragraph (1) shall comply with the following requirements:
 - a. independence, integrity, and objectivity;
 - b. competence in their field and understanding of prevailing laws and regulations;
 - c. have consistently participated in professional training programs in their respective fields;
 - d. possess proper attitude and ethics and a high sense of professional responsibility;
 - e. are not included in the list of disgraced persons pursuant to Bank Indonesia regulations;
 - f. are not affiliated with the party undergoing examination.

Article 14

- (1) Banks and Representative Offices of Foreign Banks shall institute corrective measures and/or improvements in respect of findings of examination and report to Bank Indonesia on the corrective measures taken.
- (2) If deemed necessary, Bank Indonesia may conduct examination to verify reports on results of corrective measures as referred to in paragraph (1).

CHAPTER V

EXAMINATION BY FOREIGN PARTIES

Article 15

- (1) Examination of a Branch Office of a Foreign Bank by a bank supervision authority of the country of origin or a party representing the bank supervision authority of the country of origin of the head office of the Bank concerned may only be conducted with the approval of Bank Indonesia.
- (2) Application to Bank Indonesia for approval as referred to in paragraph (1) shall be delivered in writing not later than 14 (fourteen) days prior to the examination.
- (3) Approval or rejection of an application as referred to in paragraph (2) shall be issued not later than 7 (seven) days after the receipt of the complete application.
- (4) Bank Indonesia may request an examiner as referred to in paragraph (1) to examine matters required by Bank Indonesia concurrently during his examination.
- (5) Approval for examination as referred to in paragraph (1) shall be granted according to the principle of reciprocity.

intending to conduct examination without an Instruction to Conduct Examination issued by Bank Indonesia.

Article 12

- (1) Prior to the conclusion of examination, an Examination Team shall confirm the findings of the examination with the management of the Bank, management of the Representative Office of a Foreign Bank, or management of the parties as referred to in Article 3 paragraph (1).
- (2) In the event of unresolved difference of opinion after the process of confirmation as referred to in paragraph (1), the management of the Bank, management of the Representative Office of a Foreign Bank, or management of the parties as referred to in Article 3 paragraph (1) may submit written explanations to Bank Indonesia not later than 3 (three) working days after the completion of the examination process.

Article 13

- (1) After an examination process has been completed, the Examination Team shall prepare an Examination Report.
- (2) Bank Indonesia shall deliver the Examination Report as referred to in paragraph (1) to the Bank or Representative Office of the Foreign Bank.
- (3) An Examination Report as referred to in paragraph (1) shall be confidential.
- (4) Bank Indonesia shall be consulted in advance concerning any use of an Examination Report as referred to in paragraph (1) by parties other than the bank, and such use shall require the prior approval of Bank Indonesia.

Article 17 shall deliver the results of the examination to Bank Indonesia immediately upon completion of the examination.

- (2) An Examination Team conducting examination as referred to in paragraph (1) shall report and deliver the results of the examination to Bank Indonesia immediately upon completion of the examination.

CHAPTER V

BANK SECRECY

Article 19

- (1) Other Parties, parties conducting examination as referred to in Article 15, Article 16, and Article 17, and parties informed of the results of examination as referred to in Article 13 paragraph (3) shall guard the secrecy of information and data obtained from examination.
- (2) The obligation to guard secrecy as referred to in paragraph (1) shall also apply to officers assigned by Other Parties or parties as referred to in Article 15, Article 16, and Article 17.

CHAPTER VI

ADDRESSES FOR DELIVERY OF REPORTS, NOTICES, AND APPROVAL FOR EXAMINATION

Article 20

Reports, notices, and applications for approval for examination as provided for in this Bank Indonesia Regulation shall be addressed to Bank Indonesia at the following addresses:

Article 16

- (1) In the case of examination of a Branch Office of a Foreign Bank in Indonesia by an internal examiner or public accountant assigned by the head office of the Bank concerned, prior notice shall be delivered to Bank Indonesia.
- (2) In the case of examination of a Bank whose shares are partly owned by a foreign bank, to be conducted by an examiner assigned by the foreign bank that is shareholder in the Bank, prior notice shall be delivered to Bank Indonesia.

Article 17

- (1) Examination of a Bank whose shares are partly owned by a foreign bank, conducted by the bank supervision authority or a party representing the bank supervision authority of the country of origin of the foreign party concerned, may be conducted only with prior approval from Bank Indonesia.
- (2) Application to Bank Indonesia for approval as referred to in paragraph (1) shall be delivered in writing not later than 14 (fourteen) days prior to the examination
- (3) Approval or rejection of an application as referred to in paragraph (2) shall be issued not later than 7 (seven) days after the receipt of the complete application.
- (4) Approval for examination as referred to in paragraph (1) shall be granted according to the principle of reciprocity.

Article 18

- (1) A Branch Office of a Foreign Bank as referred to in Article 15 and Article 16 paragraph (1), and a Bank whose shares are partly owned by a foreign bank as referred to in Article 16 paragraph (2) and

later than 180 (one hundred and eighty) days after the date of the last warning.

Article 23

- (1) Any Debtor as referred to in Article 3 paragraph (1) that fails to comply with the provisions as referred to in Article 6 shall be issued a written warning by Bank Indonesia at 2 (two) times separated by an interval of 7 (seven) days.
- (2) In the event that after having been issued the written warning referred to in paragraph (1), the Debtor concerned still fails to comply with the provisions referred to in Article 6, Bank Indonesia shall ask the Bank to:
 - a. discontinue the provision of facilities to the debtor concerned;
 - b. discontinue the provision of facilities in any form whatsoever to the debtor concerned; and/or
 - c. re-examine the classification of quality of the facilities extended to the debtor concerned.

Article 24

- (1) Any member of the board of commissioners, board of directors, management of a Branch Office of a Foreign Bank, management of a Representative Office of a Foreign Bank, and parties as referred to in Article 3 paragraph (1) who fails to comply with the provisions as referred to in Article 6 shall be issued a written warning by Bank Indonesia at 2 (two) times separated by an interval of 7 (seven) days.
- (2) In the event that after having been issued the written warning referred to in paragraph (1), the member of the board of commissioners, board of directors, management of a Branch Office of a Foreign Bank, management of a Representative Office of a

- a. Directorate of Bank Supervision, Bank Indonesia, Jl. M.H. Thamrin No. 2, Jakarta 10110, according to the Directorate conducting supervision of the Bank concerned, for a Bank having its head office in the Bank Indonesia Jakarta area; or
- b. Local Bank Indonesia Branch Office for a Bank having its head office in the local area of a Bank Indonesia Branch Office.

CHAPTER VII

SANCTIONS

Article 21

- (1) Any holding company as referred to in Article 3 paragraph (1) that fails to comply with the provisions referred to in Article 6 shall be issued a written warning by Bank Indonesia at 2 (two) times separated by an interval of 7 (seven) days.
- (2) In the event that after having been issued the written warning referred to in paragraph (1), the holding company concerned still fails to comply with the provisions referred to in Article 6, Bank Indonesia shall ask for the transfer of ownership of that holding company to another party.

Article 22

- (1) Any subsidiary as referred to in Article 3 paragraph (1) that fails to comply with the provisions as referred to in Article 6 shall be issued a written warning by Bank Indonesia at 2 (two) times separated by an interval of 7 (seven) days.
- (2) In the event that after having been issued the written warning referred to in paragraph (1), the subsidiary concerned still fails to comply with the provisions referred to in Article 6, Bank Indonesia shall ask the Bank to relinquish its ownership of that subsidiary not

- d. for a public accountant, to be struck from the list of accountants registered with Bank Indonesia.

Article 26

Any Bank failing to deliver a report on corrective measures as referred to in Article 14 paragraph (1) shall be liable to administrative sanctions including but not limited to:

- a. written warning;
- b. downgrading of Bank rating; and/or
- c. dismissal of (a) member(s) of the board of commissioners and/or board of directors, followed by the appointment of temporary replacement(s) until a General Meeting of Shareholders or Meeting of Members of a Cooperative appoints permanent replacement(s) with the approval of Bank Indonesia;

Article 27

Any Branch Office of a Foreign Bank and Bank whose shares are partly owned by a foreign bank that fails to deliver an Examination Report as referred to in Article 18, after having been issued a written warning at 2 (two) times with an interval of 7 (seven) days shall be liable to administrative sanctions in the form of:

- a. dismissal of (a) member(s) of the board of commissioners and/or board of directors, followed by the appointment of temporary replacement(s) until a General Meeting of Shareholders or Meeting of Members of a Cooperative appoints permanent replacement(s) with the approval of Bank Indonesia;
- b. review of the approval of Bank Indonesia for the appointment of management for a Branch Office of a Foreign Bank; and/or
- c. inclusion in the list of disgraced persons in the banking sector.

Article 28

Any party that fails to comply with the provisions as referred to in Article 19 shall be liable to administrative sanctions in the form of:

- a. recommendation issued to the competent agency for the revocation or cancellation of operating license;
- b. for a public accountant, to be struck from the list of accountants registered with Bank Indonesia.

CHAPTER VIII

CONCLUDING PROVISIONS

Article 29

With the enactment of this Bank Indonesia Regulation:

1. Decree of the Board of Managing Directors of Bank Indonesia Number 27/52/KEP/DIR dated August 3, 1994 concerning Requirements and Procedures for Bank Examination;
2. Circular Letter of Bank Indonesia Number 27/1/BPPP dated August 3, 1994 concerning Requirements and Procedures for Bank Examination;
3. Circular Letter of Bank Indonesia Number 5/155/UPPB/PbB dated February 15, 1973 concerning Examination by Foreign Examiners of Foreign Banks in Indonesia;

are revoked and declared no longer valid.

BANK INDONESIA

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Article 30

This Bank Indonesia Regulation shall come into force on the date of its enactment.

Enacted in: Jakarta,
Date: February 21, 2000

GOVERNOR OF BANK INDONESIA

(signed)

SYAHRIL SABIRIN

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER
19 OF 2000